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AMD - Q3 2001 Advanced Micro Devices Earnings Conference Call

Event Date/Time: Oct. 17, 2001 / 5:30PM ET

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OVERVIEW

AMD reported lower revenues on record unit sales of AMD Athlon and AMD Duron Processors at Depressed Prices. Revenue for Q3 was \$766 million, down 22% from Q2 of 2001 and down 36% from the company's record Q3 of 2000.

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AMD - Q3 2001 Advanced Micro Devices Earnings Conference Call

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TRANSCRIPT



Editor

Ladies and gentlemen, thank you for standing by. Welcome to the AMD third quarter earnings release conference call. During the presentation, all participants will be in a listen-only mode. Afterwards, you will be invited to participate in the question and answer session. At that time, if you have a question you will need to press the 1 followed by the 4 in your telephone. This conference call is being recorded Wednesday October 17, 2001. I would now like to turn the conference call over to Robert J. Rivet, Senior Vice President and Chief Financial officer with AMD. Please go ahead, sir.

ROBERT J. RIVET

Thank you [Ron]. Good afternoon and welcome to AMD third quarter earnings teleconference call. I am Bob Rivet. With me here today in Sunnyvale and hosting this call was Jerry Sanders our Chairman and Chief Executive Officer. Also present are Mr. Hector de J. Ruiz, our President and Chief Operating Officer, MR. Walid Maghribi Senior Vice President and President of our Memory Group and Mr. Ben M. Anixter

Vice President of External Affairs. I will begin by summarizing our third quarter highlights and then turn over it to Hector and finally to Jerry. This conference call is a live broadcast and we will replay via the Internet at www.streetfusion.com and www.AMD.com. The taped form replay number for North America is 800-633-8284. Outside the US dial 858-812-2375. The code to access the call is the same for both and that number is 197-26-232. Before we begin the conference call, I would like to caution everyone the we will be making forward-looking statements about managements goals, plans, and expectations as you know the semiconductor industry is volatile and in a severe downturn. Our product and process technology development projects and our manufacturing processes are complex. Current worldwide economic conditions make it especially difficult to forecast product demand. Because the actual results may differ materially from our plans and expectations today, I encourage you to review our filings with the SEC with the Securities and Exchange Commission where we discussed in detail the risk factors in our business. You will find detailed discussion on our most recent Form-10K filing with the SEC. Lets begin. Revenue for third quarter was \$766 million down 22% from the second quarter of 2001 and down 36% from our record third quarter of 2000. In our microprocessor product line, we achieved record unit sales of AMD Athlon and AMD Duron processors in the quarter. Our home PC processor unit sales through the third quarter were in excess of 7.7 million units and remained at the record levels of the immediate prior quarter. We believe we held unit market share in the 22% range. Our microprocessor product revenues declined 21% from the second quarter of the current year due to lower average selling price and extremely aggressive competitive environment. Revenue in our Memory product line declined by 34%, from the second quarter of 2001, inline with our forecast. With our top line declining both year on year and sequentially, our ability to stand at length was obviously challenged. Pro forma operating income was a loss of a \$135 million for the quarter, which results in \$0.28 per share loss. Our pro forma operating statement exclusive of the fact of restructuring and other special charges that this will limit will our provisions associated with the fab 14-15 closure and the effects to the charge for impaired investments. Total Pro forma adjustments were \$118 million and \$1890 million on a pretax and aftertax basis respectively. Net income including the one-time charge as mentioned above in accordance with generally accepted accounting principles for the quarter was a loss of \$187 million or \$0.54 cents per share. Gross margin on a pro forma basis was 23% for the quarter, down 14% points from the second quarter of 2001. Revenue declines in our Memory product line and the ASP pressures in our

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microprocessor business have significantly impacted the margins. Factory execution of both output and yield productivity was better than the second quarter. Research and development spending was on plan at \$161 million for the quarter, down 6% from the second quarter of this year. Marketing general and administrative spending was also on plan at \$152 million for the quarter, down 3% from the second quarter of this year. Switching to the balance sheet, we will talk about cash, inventory, and capital expenditures. First cash, during the third quarter we repurchased 6.3 million shares of our common stock at a cost of \$76 million. In addition, we retired the remaining senior debenture notes resulting in a cash outflow of \$43 million during the quarter. Cash flow from operations excluding capital additions was positive. Our cash balance into the quarter at \$904 million, down a \$153 million from the second quarter of 2001. We completed the quarter with \$449 million of inventory, up \$48 million from the second quarter. Inventories for both our microprocessor and Flash product lines are appropriate for our plans for the fourth quarter. Capital spending for the third quarter was a \$164 million. More than half of which was addressed and depreciation expenses a \$160 million for the quarter. For our modeling for the fourth quarter, please consider the following: Our tax schedule will continue at 27%, capital spending for the year will be somewhat less than our previously revised goal of \$900 million of the year. We will complete fab 30 and install a 130-nm capacity on schedule this year. Depreciation expense for the year will be about \$650 million. For your EPS calculations, use 348 million shares for the fourth quarter. Finally, R&D investments for the year will be about \$660 million. I will now turn this over to Hector to start the business segment discussions. Hector?

HECTOR DE J. RUIZ

Thank you Bob. Supplies market continues to be weak and general. Although all market segments appeared to have stabilized, the communications and networking segments are at their lowest level in two years. It is now believed that at this time in Flash could be down as much as 30% this year over the last year and our expectations are our R&D will be down around 25% for the year, thus out performing the market. This quarter as previously guided our Flash revenue was down 33% from the previous quarter. We have begun to see moderate business activity in Flash as result of new products introduced, which address new applications and provide at its feature looking cell phones, particularly those dealing with GPRS protocol. We expected new product activity and the bottoming out of the rest of the market to lead to

moderate revenue growth in the fourth quarter. Jointly with our partners with Dukes, we continued to invest in new products, new technology, and new state of the art capacity as evidenced by the beginning of production shipments out of our latest fab JB 3 in [Isowakamatsa] Japan this quarter. This will potential on FASL the joint venture between Fujitsu and AMD to continue to be the market leader in this important segment as it recovers. In the microprocessor business, we shipped over 7.7 million units this quarter ... the same record unit ship and level of the second quarter. We believe that in an aggressive pricing environment, we were able to hold our unit share around 22%. Fab 30 continues to ramp to full capacity in terms of way for stocks and we expect the fab to reach this goal by year-end as previously noted. The performance of this factory continues to be outstanding and we continued to sell out its output. As planned, we will begin conversion to a 130-nm technology before the end of this year, and we expect to be totally converted by the end of 2002. We are thrilled about our progress in this area, as microprocessor telecom from this fab at 130-nm it is exhibiting great yields and outstanding of robust mix. The introduction of Athlon XP has been greatly successful and the demand for this product is currently robust. We are positioning our product mix and manufacturing plans to take advantage of this anticipated strong demand for the product. We played significant emphasis on cost and capital reductions this quarter and we will continue to do so in the months ahead. Although, incurring an operating loss this quarter we are on plan on cost management programs and expect it to be at somewhat less than \$900 million of capital expenditure previously anticipated. We are doing things without impacting our key new product and technology. Our foundry support business the greatest significantly here as a result of continuous deterioration of the communication business of our customers. Thus, leading to the accelerated shut down of our older fab ... fab 14 and fab 15 in Austin, Texas by the end of the second quarter of next year. We are confidently positioning our products, technology, and our business models to return to profitability as the markets recovers. We have the strongest position in the history of the company relative to product and technology competitiveness and we are confident that our business model will lead to profitable growth. With that I would turn this to Jerry for further comments and outlooks.

W. J. SANDERS

Thanks Hector. I just like down that in PC processors we believe that in most we lost \$0.7 of a percent of market share

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last quarter. With the industry shipments of processors estimated at about 37 million units, \$0.7 of a percent in market share is only a few 100,000 units. We think that maintaining market share in the 22% range and the extremely weak market in the phase of extraordinary competitive practices is a noteworthy achievement and a testament to the competitiveness of our product offering. Sales of power managed Athlon IV and Duron for the mobile market more than doubled in the quarter and we are on track to meet our goal of 50% share of market in US retail mobile PC sales by year-end. We gained traction in the multiprocessor, server, and workstation market with our Athlon NP. The key to our future success will be those products and most importantly the Athlon XP that we just introduced with ringing endorsements from third parties on the performance superiority of Athlon XP over Pentium IV even running in clock speed higher than we position the Athlon XP the challenge be optimistic we can arrest the precipitous decline in ASPs, which is the overwhelming reason for our disappointing results. Going forward, we see continuing strength in Europe, new opportunities in Asia, and recovery in the US driven by our new product offerings. Japan is weak and the overall competitive environment remains intense. Under such conditions, the ability to forecast is challenging to say the least. Nevertheless, we believe we will achieve record unit sales of PC processors in Q4, and I would be extremely disappointed if our PC unit sales numbers don't start off with an 8. The wild card in projecting revenues is of course twice and this leads us to plan on revenues for PC processors in a wide range from flat with the just completed quarter the sales growth as much as 10%. With the company as a whole, in light of the lack of visibility, we project revenues for the fourth quarter in a broad range from flat to the last quarter to a high single digit growth. We are monitoring economic developments closely and exploring several initiatives to improve our cost structures while noting that our strong balance sheet should enable us to weather the downturn, which most likely has been extended several quarters by declining consumer confidence resulting from recent events. Thank you. I will open it for questions. [Ron] would you please arrange the Q&A?

Operator

Thank you ladies and gentleman if you wish to register a question for today's question and answer session, you will need to press the 1 followed by the 4 on your telephone. You will hear a three-tone prompt to acknowledge your request. If your question has been answered and you wish to withdraw

your phoning request, you may do so by pressing the 1 followed by 3. If you are on a speakerphone, please pick up your handset before entering your request. One moment please for the first question. The first question comes from Chris Caso with Wit Sound View Group. Please go to the question.

CHRIS CASO

Hi, this Chris Caso for Scott Randall. I am just wondering if you could provide some color on how your shipments tracked sequentially through the quarter ... if you saw a seasonal, I guess, typical seasonality and what sort of a fact you might have seen from the September 11th events.

ROBERT J. RIVET

Well as usual the third quarter was the most back end lowly of any of the quarters. That was not different this year than any other year. We shipped an awful lot in the very last week of the quarter because of the disruptions in the transportation system with the air traffic issues. Nevertheless, we managed to meet our customer's entire requirement and I am very, very pleased with the operational performance of the company and that we did not have any impact on our shipments for the quarter as a result of the terrorist attacks.

CHRIS CASO

Okay thank you.

Operator

Tim Mahon from CS First Boston. Please go ahead with your question.

TIM MAHON

Thanks ... Walid I think this might be targeted towards you. Can you tell us what the capacity utilization is at FASO?

WALID MAGHRIBI

It depends on the technology. We have three different kind of fabs ... the [CS- 59] or the 0.32 micron. The capacity is very low it is in the 50%. Whereas on the quarter our micron capacities utilization is 100% and on the [CS-59] to 0.18 micron

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as you know our fab just was released of production and we will start shipping the product this quarter from that fab, so beginning of a new fab. Technology on that [_____].

TIM MAHON

Great and then just a followup on that ... you know may be you can give us an idea of what percentage of your Flash units in revenues come from, lets call low density versus high density and low density being four Meg and below?

WALID MAGHRIBI

Four Meg and below out of the 200 in the 10 million ... I would say less than 10%.

TIM MAHON

Okay. Given some of the strength from one your competitors in the low-density market ... can you see you guys split 50% capacity utilization at one fab, kind of, getting more aggressive may be in the low density market?

ROBERT J. RIVET

I will answer that on that Walid. I am very proud to say that while we have maintained profitability in the memory group, which he deserves [_____] and he is managing for profitability and chasing a lot of low-density business at low margins ... it is probably not too smart.

WALID MAGHRIBI

I think the numbers reflect exactly the strategy that we have implemented it is the Flash sale was down 33% and the unit shipment was only down by 29%. Though our ASP has increased and that is very usual in the current market situation and that is mainly because we have walked away with some very, very low-density product at prices that does not even cover the variable cost.

TIM MAHON

Okay great. Last one that I promise ... in addition to Samsung, can you tell us who all supplies you [_____] for stocked devices?

WALID MAGHRIBI

I prefer at this moment not to say because we are in the process of negotiating contracts and fact that Samsung on is our major supplier.

TIM MAHON

Great thanks Walid.

Operator

[Stephen Wise] from Wiseman associates. Please go ahead with your question.

STEPHEN WISE

Good afternoon and my wishes on a good quarter. Jerry, I have a couple of questions for you. Right now as companies are looking to change the way they handle their manufacturing facilities with the soft economy is the demand changing at the mandate changing ... a lot of your competitors are moving towards a more demand-driven manufacturing model. How is the AMD looking to move towards a model like this if they have already have not done so and what is your IT strategy as support to stopping model?

W. J. SANDERS

Let me answer the first part of the question and let Hector comment on our IT strategy and something we are doing to have a demand model. First and foremost, we have a magnificent factory in fab 30, which is ramping to full production and we are converting it over to a 130 nanometer technology. We think this is our secret weapon if you will. It can produce over 50 million units a year and in the 130-nm technology, I will remind you we have an extremely small die on the Athlon product. Only 80 square millimeters, which is dramatically different than our competitors die. So, our issue there is ramp that production as quickly as we can, move it to 130-nm, try and use all of our products, and we are very happy with that factory. Our major factory fab 25 ... we are converting to a flash factory with leading edge technology to give us a better balance with the opportunities. So, I think that we feel comfortable that we got an extraordinary asset in fab 30, which will enable us to successfully prosecute the PC processor market and even in the most competitive environment and we are going to improve our cost structures

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over all by moving fab 25 into Flash. Hector, do you want to comment on the IC stuff and the ERP?

HECTOR DE J. RUIZ

Sure. We have embarked on the ... approximately now a little over a year on a fairly major proxy on the company to be more, I guess, yield-driven if I can use that expression for running our company and what we have done and perhaps may be giving you a little more background that you might want is we have taken full-time executives and senior managers which are very receivable function in the company from finance to sales, manufacturing etc to form a people that is actually in excess of 200 full-time employees on a project based on an SAP package, which will result in over the next two years and not a cliff occurrence at the end of two year, but it occurred monotonically between now and another two years ... it will have a full implementation on the ERP program that will be closely tied to our customers. I do not think we are appropriate to give some of the specific ideas we have in mind on what to do, but the bottom line is that we intend to provide a service to our customers that will be unique and very powerful and the feedback from the customer that we have talked to on what we intend to do is extremely positive, and of course in which we could have gotten there a year ago, and we are working hard to do that.

STEPHEN WISE

Jerry what are you also looking to do as you aggressively time inventories currently right now to try to reduce the inventory left in the quarter?

W. J. SANDERS

It looks to me like our inventories are in good line; as though Bob pointed out we do not think we have it. We are selling virtually everything we are making in fab 30. So as we move to the new products we are selling everything out. So, any inventory build are ramping up the new product ... so I feel very comfortable with that.

STEPHEN WISE

Okay and final question. What would you say your top three initiatives are for either 2002 and how you do plan to go back on presenting those?

W. J. SANDERS

Hammer, Hammer, and Hammer. Hammer is the future we got an extraordinary opportunity here to break into markets we have never been in ... hammering in bodies all of the important initiatives. Number one, it moves us into ... top to bottom from servers all the way to laptop that family does, it gives us the opportunity to go to silicon-ion-insulator, and it gives us the chance to have a truly differentiated solution so that our customers are going to have the only opportunity to compete against the Dell model. Finally, I would be [] if I did not point out that while hammer, hammer, hammer are my top 3 there is a number 4 and that four is narrow bit technology from flat, which will allow us to offer with no compromise on reliability or performance have the costs and double the density. So, we feel that when the upturn comes we are going to kick ass.

STEPHEN WISE

Great, thank you very much.

Operator

Eric Ross with Thomas Weisel Partners. Please go ahead with your question.

ERIC ROSS

Yes, I got a couple of questions. When are you going to ramp up fab 25 with the 0.13 micron copy you talked about doing that after fab 30 ... is that on the word now?

W. J. SANDERS

Somewhere along line you are misinformed or misunderstood. We have no intentions as ever of putting copper into fab 25. Fab 25 will become a flash fab ... flash does not use copper and it does not have that many layers of connect net committed. So, fab 25 will become a flash fab by the end of next year.

ERIC ROSS

I apologize about that and just two other really quick questions ... is SOI is that on time in your roadmap as well?

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W. J. SANDERS

Hector, do you want to comment?

HECTOR DE J. RUIZ

Yeah, SOI is an interval part of our plans from hammer and as Jerry said hammer, hammer, hammer ... that product is based totally on SOI and we expect that over time, our whole product line will migrate to SOI. Therefore by definition, it is on target, it is on sometime, and we are very pleased with the results we have seen so far.

ERIC ROSS

One last question. With full utilization of fab 30 ... is that going to significantly reduce your cost going forward in the outline as you especially run this?

HECTOR DE J. RUIZ

Absolutely, it turns that the dye size of the Athlon and the 130 Nm only 80 square millimeters. I just point out that this gives us some 315-dye candidates for wafer Intels North wood will be no more than 180 dye candidates per wafer. So, we think we got a real edge on them on cost structure here. So, they could not continue to increase revenues and reduce their operating profits, but I think that is a full variant. With no worthy to me that their revenues went up \$266 million sequentially in processors and their operating process went down \$118 million. Normally, in a leverage business when your revenues go up ... your profits go up. So, it is pretty clear that this desire to cut off our air supply is not painless to them.

ERIC ROSS

I appreciate it. Thank you.

Operator

[Dan Scovo] from Newman Company. Please go ahead with your question.

DAN SCOVO

With regards to microprocessors ... where all of your processor shipment Athlon and Duron or was there any sort of legacy hanging around that?

ROBERT J. RIVET

100% seventh generation. Last quarter, we actually shipped less than 1% for K62 that were 0, actually 0000 everything we shipped in Q3 with Athlon and Duron.

DAN SCOVO

With regards to looking out next year, obviously, you do not want to give a whole lot of details, but I was just wondering if you could probably revive something like some tax rate looking into the next year or so?

ROBERT J. RIVET

I would like to actually put that off until November 08, 2001 when we have our analyst meeting. We expect to be a much better position to give you guys some real guidance on what next year is going to be all about. We have got off side meetings next week among the top management; we expect that after that we are going to get some of our details out to you guys.

DAN SCOVO

Also, can you give us status with the regards to the future manufacturing facilities after fab 25 is converted to Flash and after fab 30 is ramped up and converted to 0.13?

ROBERT J. RIVET

That is an interesting question though as I pointed out when we go to 130 nm, we will be 100% converted to 130 nm by the end of next year. We can produce more than 50 million units a year in that fab. I point out that, that would be more than the 30% market share that everyone says we will never get to except us. So, I think the question is interesting but irrelevant. Meanwhile, we do have plans so that when we have to more than 50 million units a year we will be target and I think we will have some more comments on that also on November 8th.

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DAN SCOVO

Also with regards to some of your other businesses ... the communication product and foundry services, I guess, how should we profile that ... should we assume that it will, kind of, go away after a couple of quarters or less?

ROBERT J. RIVET

I would say it is finally going to go of the foundry business should be gone by the third quarter of next year as our chief financial officer says. I hope that is true. The other business is just is going to be a steady decline going forward, but I do not think it will go away. It is currently running around 40-50 million a quarter.

DAN SCOVO

Thank you very much.

Operator

Mark Edelstone from Morgan Stanley. Please go into your question.

GERRY CHIF

Thank you. This is Gerry Chif for Mark ... a couple of questions if I could. First of all on something that you might have a little more control over, could you talk about what the operating expenses is going to be like in the fourth quarter and how that may trend in the next one or two quarters. Second of all, Gerry I am pretty sure you did not talk about the exact time frame for the eighth generation launch that ... would you care to know that range a little bit, for us here?

ROBERT J. RIVET

I will answer the second part. We are targeting the late next year for the launch of the hammer family ... we are sticking with that. As far as the operating expenses, we are in a very tight cost control kind of environment with the lack of visibility. I would anticipate, kind of, as I said if you do the math, kind of the same as we have had in the third quarter and fourth quarter with a slightly little bit better cost control.

GERRY CHIF

Okay, would you expect that to be the case in the first half of next year as well?

ROBERT J. RIVET

I am sorry repeat the question?

GERRY CHIF

Would you expect that expense control level to be about the same in the first half of next year?

ROBERT J. RIVET

Yes, we will adjust accordingly to the business environment we are in. We will not go and sacrifice any R&D expenditures. We will continue to try to work to lower our break-even point, which currently is around the \$950 million level.

GERRY CHIF

Okay, thank you very much.

Operator

Ladies and gentleman if you do have an additional question at this time, please press the 1 followed by the 4 on your telephone. John Joseph from Salomon Smith Barney please go ahead with your question.

ROMESH MISHRA

Hi good afternoon, this is [Romesh Mishra] for John Joseph. I had a question in regards to your mobile Athlon ... the Palameno product ... you haven't talked too much about this on this call ... what is the outlook over there and how is the competitive landscape in that place and also are our ASPs in the mobile space holding up any better?

ROBERT J. RIVET

The answer is that we are very pleased with the progress we are making there. You might have missed, but I pointed out that we expect to have 50% share of market in US retail mobile by the end of this year. That is not the strength of the Athlon

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for and the power managed Duron. So, that is going extremely well. We are very pleased with that and the ASPs are of course better than desktops. So, that is one of the reason we hope that we can attenuate this price attrition that that we have been seeing.

ROMESH MISHRA

And in the competitive landscape especially in light of the new product introductions from [Transmet] and of course Intel.

ROBERT J. RIVET

[Transmet] is not relevant. It turns out Intel has effectively kept them out of the market the market place we serve ... the full function PC ... the mobile PC and going to thin in light next quarter and into next year as we get to the 130-nm versions of Athlon IV. Intel is the only competition.

ROMESH MISHRA

Okay, thanks very much.

Operator

John O'Neil from UBS Warburg please go into the question.

KEVIN LEE

Couple of question. I was wondering if you can accomplish through the product mix for breakdown of performance versus value in your processors this quarter and the second question will be a break down of mobile versus desktops.

ROBERT J. RIVET

Okay, first of all really the Duron for the value space, the Athlons for the performance base, it is about 50-50. Frankly, we are having a better time selling Athlon because of the superior performance against anything that is out there and we expect that our growth in Athlon will probably exceed our growth in Durons in the current quarter. We are doing extremely well. Athlon XP is hot ... the customers like it I am very excited about that. Athlon IV as we said is good. Still our molder business is only about 5% of our total sales ... so there

is a lot of upside there. What was the second part of the question?

KEVIN LEE

Well, I think you can address more questions when you address mobile purchases to be about 5% of the sales.

ROBERT J. RIVET

Okay.

KEVIN LEE

Thank you.

Operator

Joseph Osha from Merrill Lynch please ahead with your question.

MAT CHIN

Good after noon gentleman this is [Mat Chin] calling your for Osha. I would like to followup on the question just asked what percentage is server and what percentage is that you could provide that.

ROBERT J. RIVET

Okay, I guess the only guidelines this year is that we are just getting into the server space. We are shipping nearly tens of thousands currently of Athlon MT. Reception has been fantastic ... it is a very low-cost solution and we are very excited about it. But right now it is a minor part of our business and the ten of thousands.

MAT CHIN

What type of reception are you getting for the Athlon XP in the server segment?

ROBERT J. RIVET

The Athlon XP is not targeted at the server segment, the Athlon NT for multiprocessing is and there we are getting



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great response. As far as the mobile bills, as I said, mobile is about 5% of our business, the desktop is about 95% with a diminished amount obviously tens of thousands out of 7.7 million is not a very large percentage.

MAT CHIN

Great ... I would like to ask some more questions on the operating line. You mentioned that fab 14 and 15 would be phased out by the end of next year. Do you have any estimates as to when we can expect that to materially better the operations line?

ROBERT J. RIVET

First all of all, fab 14 to fab 15 should be phased out by the end of the second quarter. So, clearly the second half will have no negative impact as a result of fab 14 and fab 15. The more important thing on gross margin is one issue only ASP, ASP, ASP. Operationally, we are doing great, yields are terrific, quality is superb, costs around our control, and the ASPs are really ugly.

MAT CHIN

Finally, if I may ...are you running on the fab shutdown programs for either your factories or micro-processing factories at all in the next quarter?

ROBERT J. RIVET

No current plans as I say fab 30 is our star ... it is generating outstanding new products and in those products we are seeing strong demand for. Obviously, in fab 25 we have excess capacity. What we are trying to do is ramp down the demand for processors as we ramp up the Flash that is the challenge ahead of us, and clearly we are working out a number of new ways to find ways to minimize the cost impact.

MAT CHIN

Great thank you very much.

Operator

Douglas Lee from Bank of America securities please go ahead with your question.

SUMIT DANDA

This [Sumit Danda] calling here for Douglas Lee. A couple of quick questions. First, could you comment on sales out of your distribution channel, which is the direct sales for your OEM ... if you could give the percentages roughly for both of them and also if saw expense in one versus the other and the second question is I, sort of, missed the numbers on R&D projections and depreciation if you could give back to me again.

ROBERT J. RIVET

I will tell those numbers first. First, the R&D number we set for the year and the R&D would come in around \$660 million.

SUMIT DANDA

Depreciation?

ROBERT J. RIVET

Depreciation was \$600 million for the year. Relative to your other question, I would like to point out that we had extraordinary strength in the international markets. We did some 68% of our revenues during the international that is where the strength was for us because our competitive management freezes out pretty well in the US as major accounts for the quarter. We are pleased we could make up for that. We expect to do better with those guys as we go forward because of the XP and because of the Athlon IV. I don't have any specific numbers here for distribution.

SUMIT DANDA

Okay, thank you.

Operator

[Steve John] from A mutual funds. Please go ahead with your question. Mr. John your line is now open.

STEVE JOHN

Apparently, we have taken this quarter into view ... do you anticipate any further impairment be taken in the future and

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also if you can will those be public or private health companies?

ROBERT J. RIVET

Well. It is hard to anticipate what is going to happen in the market place. One was we had two write-downs that took place in the process ... one was public and one was private.

STEVE JOHN

And just as a followup ... I wanted to confirm your cash flow from operations ... was that a negative 43 million, I doubt, how did you say that previously ... is that correct?

ROBERT J. RIVET

Cash flow from operation was positive if you exclude the capital addition.

STEVE JOHN

Thank you

Operator

Eric Ross please go ahead with your followup question

ERIC ROSS

I have got a quick question. End force is obviously we don't want to talk out there would that be a driver for a very low-end unit?

ROBERT J. RIVET

We had a driver for all our units. I think it looks like a pretty attractive product.

ERIC ROSS

Do you see it end being a major contributor may be a 20% contributor to your revenues?

ROBERT J. RIVET

I would be hesitant to guess which of our chip set partners is going to be the most successful. We will leave that for our customers.

ERIC ROSS

And you had mentioned your US customers are really frozen up by your main competitor ... how does that tie in with your ability to reach 50% of the US newport market by the end of the year?

ROBERT J. RIVET

I guess we won't be frozen out this quarter.

ERIC ROSS

So, do you really think that is a temporary thing?

ROBERT J. RIVET

Yes.

ERIC ROSS

Okay, do you have a sense of what percentage of your shipments is going into corporate PC versus consumer lines?

ROBERT J. RIVET

We have a number; I think we said 27% of our business at the US was with small business and medium business that is corporations. I do not have a better number than that.

ERIC ROSS

Do you have worldwide number?

ROBERT J. RIVET

I do, but I don't have it in my head and I don't have my fingers on it and we probably get back to you outlined with the number. It is in that same range.

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ERIC ROSS

Terrific and then one other question. There has been some talk about the compatibility of hyper transport with the 3G IO ... may be you can comment on that?

ROBERT J. RIVET

These things ... as a matter of fact ... we will be delighted to have our competitor implement hyper transport in some form in any other products they choose to, because they are protocols that can be comparable. Normally, hyper transport will start of inside of chip where a 3G IO is. It is something that can be viewed more as a replacement for a current BCL standard. And as you, we through a consortium we have made hyper transport totally open and of course available to anybody who would like to license.

ERIC ROSS

Thank you very much.

Operator

Eric Chen from J. P Morgan please go ahead with your question.

ERIC CHEN

Thanks and I apologize to you if this has already been asked as I got on the conference call late. My understanding has been that you will ramp 0.13-micron processes sometime in December, is that still on track at this point?

ROBERT J. RIVET

Yes it is. We are on plan to begin production before the end of the year.

ERIC CHEN

Okay. Could you also give us an update on any efforts on the 300 mm?

ROBERT J. RIVET

We are very aware of the progress that we made on 300 mm. We believe that both in Flash Memory as well as microprocessors we will be in 300 mm capability sometime in the year 2004 timeframe. So, we are pretty committed to that. The progress we have made is good and we are pleased with it.

ERIC CHEN

Okay and also would you care to characterize even just qualitatively the yield level that you are experiencing ... the adjustments side ... specifically those processes utilizing a low key process?

ROBERT J. RIVET

I think that the only comment I would like to make is that we are thrilled with a yield and productivity numbers on our fab 30 and based on the experience that all of us have in the industry, I would classify them as world class numbers, but I would want to give you any more on that.

ERIC CHEN

I understand. Thanks a lot.

Operator

Ladies and gentlemen, if you have any additional questions at this time, please press the 1 followed by the 4 on your telephone. Gentlemen, I am sure there is no further questions, please continue with your presentation or any closing remarks you may have.

ROBERT J. RIVET

Bob, we will just close it down. Thank you very much. We will talk to you soon. One last comment I would make ... we do have our annual analysts conference meeting on November 8th here in Sunnyvale California. Please attend or listen in on the video stream.



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Operator

Ladies and gentlemen, this does conclude our conference call for today. You may all disconnect. Thank you for participating.

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